Attachment 2

MEMORANDUM

To: The CalPERS Investment Committee

Date: April 11, 2011

From: Pension Consulting Alliance (PCA)

cc:

RE: Fund Policy Benchmarks – Alternative Investment Management (AIM) and Real Estate

In its capacity as a consultant to the Board, PCA has been asked to comment on the proposed revisions to the AIM and Real Estate policy benchmarks which are to be presented at the April 11, 2011 Investment Committee meeting. PCA has reviewed the proposal and discussed it with CalPERS' Staff.

AIM

PCA is in general agreement with the proposed revision of the current AIM benchmark (Custom Wilshire 2500 Index + 3%, lagged one quarter) to a benchmark that would more accurately reflect the global composition of the AIM portfolio ((2/3 FTSE U.S. TMI + 1/3 FTSE All World ex-U.S. TMI) + 3%, lagged one quarter). PCA has made inquiries as to the current composition of the AIM portfolio and reviewed recent portfolio reports, and believes that the new benchmark's weighting of U.S. and global equities is a reasonable reflection of the AIM portfolio's current geographic allocation.

Real Estate

PCA is in general agreement with (i) the proposed future policy benchmark for real estate as well as the (ii) proposed transitional benchmark for the suggested five to seven year implementation of the newly adopted strategic plan for real estate. PCA notes that the transitional benchmark is not closely matched to the current holdings in the real estate portfolio, since approximately 40% of CalPERS' investments are classified as opportunistic, versus the benchmark, which is vastly core. Nevertheless, the proposed benchmark provides a guidepost for measuring the performance of the revised strategic plan for real estate and continues the evolving process of implementing the goal of more closely aligning the performance of the assets and the Staff with the role of real estate for the System.

Additionally, moving towards a market-weighted benchmark, insofar as the REIT component of the overall portfolio is concerned, versus a fixed allocation-weighted benchmark, will more accurately display the attribution from REITs versus private real estate equity investments as the REIT investments are phased out of the real estate program as projected by Staff during the next one to three years.

PCA agrees with Staff in preferring to avoid a more opportunistic transitional benchmark for the administrative and reporting issues cited by Staff. Additionally, the use of an opportunistic benchmark for the transitional period could create the risk of having future investment skewed towards a more "aggressive risk" (i.e., opportunistic) portfolio which does not coincide as closely with the revised direction of the real estate program.